

# Water



# Independent Auditors' Report: Water



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To the Honorable City Council and Board of Public Utilities  
City of Riverside  
Riverside, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying financial statements of the City of Riverside, California, Water Utility, an enterprise fund of the City, as of and for the year ended June 30, 2010 as listed in the table of contents. These financial statements are the responsibility of the City of Riverside Water Utility's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year partial comparative information has been derived from the financial statements of the Water Utility for the year ended June 30, 2009 and, in our report dated October 29, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements of the City of Riverside, California, Water Utility are intended to present the balance sheets and the related statements of revenues, expenses and changes in equity, and cash flows for the City of Riverside, California, Water Utility, a fund of the City, and do not purport to, and do not, present fairly the financial position of the City of Riverside, California, and the changes in its financial position and its cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheets of the City of Riverside, California, Water Utility, as of June 30, 2010 and the changes in its equity and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2010, the City of Riverside Water Utility changed the manner in which it accounts for derivative instruments as a result of the implementation of GASB Statement No. 53, as described further in the notes to the financial statements.

# Independent Auditors' Report: Water



To the Honorable City Council and Board of Public Utilities  
City of Riverside

The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the City of Riverside, California, Water Utility's basic financial statements. The supplementary information entitled Water Key Historical Data, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2010 on our consideration of the City of Riverside's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Mayer Hoffman Mc Cann P.C.*

San Jose, California  
October 18, 2010

# Management's Discussion and Analysis: Water

As management of Riverside Public Utilities (a department of the City of Riverside), we offer the readers this narrative overview and analysis of the 2009-10 financial report for the period ended June 30, 2010 and 2009 for Riverside's Water Utility, an enterprise fund of the City. We encourage readers to consider the information presented here in conjunction with additional information furnished in our financial statements, which begin on page 59 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

## FINANCIAL HIGHLIGHTS

Fiscal years 2010 and 2009 reflected strong operating results for the Water Utility, with retail sales exceeding the previous year's results, primarily from an expanded customer base and the effects of rate increases offset by a decrease in consumption.

- Retail sales, net of reserve/recovery were \$51,147 and \$49,591 for the years ended June 30, 2010 and 2009, respectively. The increase in sales was primarily due to recent rate increases to support the Water Utility's Water Master, Water Supply and Asset Management Plans, offset by a 9.2% reduction in retail consumption.
- The assets of the Water Utility exceeded its liabilities (equity) at the close of fiscal years 2010 and 2009 by \$277,994 and \$275,143, respectively. Of this amount, \$32,029 and \$30,361, respectively, may be used to meet the Utility's ongoing obligations to creditors and customers.
- The Utility's total equity as of June 30, 2010 and 2009 increased by \$2,851 and \$656 from fiscal years ended June 30, 2009 and 2008, respectively, due to positive operating results.
- As of June 30, 2010 and 2009, unrestricted equity represented over 68% and 66% of annual operating expenses, respectively.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Riverside Water Utility financial statements. The Water Utility is a department of the City of Riverside, and its activities are recorded in a separate enterprise fund. These financial statements include only the activities for the City of Riverside Water Utility and provide comparative information for the last two fiscal years. Information on city-wide financial results is available in the City of Riverside's "Comprehensive Annual Financial Report."

The City of Riverside Water Utility's financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements. In addition, this report also contains other supplementary information to provide the reader with additional information about the Water Utility, including key historical operating and other relevant data.

Included as part of the financial statements are three separate statements, which collectively provide an indication of the Water Utility's financial health.

The **Balance Sheets** present information on assets and liabilities, with the difference between the two reported as equity. Over time, increases or decreases in equity may serve as a useful indicator of whether the financial condition of the Utility is improving or deteriorating.

The **Statements of Revenues, Expenses and Changes in Equity** present information showing how the Utility's equity changed during the most recent two fiscal years. Results of operations are reported as underlying events occur, regardless of the timing of cash flows. Thus, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods, e.g., accounts payable and accounts receivable. This is called the accrual basis of accounting and is described in more detail in the accompanying Notes to the Financial Statements.

The **Statements of Cash Flows** present the cash flow changes occurring during the last two fiscal years in highly liquid cash and cash equivalents, including certain restricted assets.

The **Notes to the Financial Statements** provide additional information that is essential to a full understanding of the data provided in the Water Utility's financial statements. The notes to the financial statements can be found on pages 63 to 73 of this report.



## UTILITY FINANCIAL ANALYSIS

As noted earlier, equity (also called net assets) may serve over time as a useful indicator of the fund's financial position. In the case of Riverside's Water Utility, assets exceeded liabilities by \$277,994 and \$275,143 at the close of the fiscal years 2010 and 2009, respectively.

The following table summarizes the Water Utility's financial condition as of June 30, 2010, 2009 and 2008:

### CONDENSED STATEMENTS OF EQUITY (NET ASSETS)

	2010	2009	2008
Current and other assets	\$ 148,966	\$ 85,935	\$ 117,776
Capital assets	372,792	356,089	324,636
Total assets	521,758	442,024	442,412
Long-term debt outstanding	219,414	142,972	146,799
Other liabilities	24,350	23,909	21,126
Total liabilities	243,764	166,881	167,925
Invested in capital assets, net of related debt	237,366	237,738	230,897
Restricted	8,599	7,044	6,256
Unrestricted	32,029	30,361	37,334
Total equity (net assets)	\$ 277,994	\$ 275,143	\$ 274,487

## ASSETS

**Fiscal Year 2010** Total assets of \$521,758 reflect an increase of \$79,734 (18.0%), mainly due to the following:

- Current and other assets, comprised of restricted and unrestricted assets, reflect an increase of \$63,031 primarily due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds which resulted in an increase in bond proceeds of \$80,000 to fund construction projects offset by the use of \$19,969 of bonds proceeds for capital projects and an increase of \$2,865 in deferred debits on an interest rate swap fair valuation as a result of the implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). See Notes 1 and 4 in the accompanying financial statements for additional information.
- The increase in net capital assets (Utility Plant) of \$16,703 was a result of significant investment in the pipeline replacement program, system expansion and improvements, and construction of treatment facilities as discussed in the "Capital Assets and Debt Administration" section on page 55 of this report.

**Fiscal Year 2009** Total assets of \$442,024 reflect a decrease of \$388 (less than 1.0%), due to a net decrease of \$31,841 in current and other assets primarily due to the use of \$28,284 of bonds proceeds for capital projects and the \$3,797 increase in deferred debits on an interest rate swap fair valuation as a result of the implementation of GASB 53. Accounts receivable from other utilities and governments decreased by \$7,032 primarily due to the reduction of a receivable from the State of California for reimbursement for capital construction projects. Net capital assets (Utility Plant) increased by \$31,453 as a result of significant investment in the pipeline replacement program, system expansion and improvements, and the construction of treatment facilities.

## LIABILITIES

**Fiscal Year 2010** The Utility's total liabilities were \$243,764, an increase of \$76,883 (46.1%), due to the following:

- Long-term debt outstanding increased by \$76,442 due to the issuance of the 2009 Water Refunding/Revenue Series A and B Bonds in the amount of \$99,685, offset by \$4,415 in principal repayments, advance refundings of \$21,765, and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.
- Other liabilities increased by \$441 primarily from a \$2,865 increase in the fair value of swap derivatives as a result of the implementation of GASB 53 (see Note 4), offset by a \$2,602 decrease in payables.

**Fiscal Year 2009** The Utility's total liabilities decreased by \$1,044 (less than 1.0%) to \$166,881. Long-term debt outstanding decreased by \$3,827 primarily due to principal repayments, amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums. Other liabilities increased by \$2,783 primarily due to a \$911 decrease in payables and an increase of \$3,797 in the fair value of swap derivatives.



## EQUITY (NET ASSETS)

**Fiscal Year 2010** The Water Utility's equity, which represents the difference between the Utility's resources and its obligations, totaled \$277,994, an increase of \$2,851 (1.0%) is comprised of the following:

- The largest portion of the Utility's equity is \$237,366 (85.4%), and reflects its investment in capital assets, such as treatment, pumping, source of supply, transmission and distribution facilities, less any related outstanding debt used to acquire those assets. This portion decreased slightly by \$372 (less than 1.0%) over prior fiscal year due to the amount of capital assets constructed or purchased that were not bond financed and principal payments made on bonds, offset by depreciation expense. Additional capital asset information can be found in the "Capital Assets and Debt Administration" section.
- The restricted portion totaled \$8,599 (3.1% of total equity), and represents resources that are subject to internal and external restrictions on how they may be used. These are reserved for items such as debt repayment and funds collected for the Water Conservation and Reclamation programs. This portion increased by \$1,555 from prior fiscal year primarily due to increases in debt service reserves for principal and interest payments for new bond issues.
- The unrestricted portion totaled \$32,029 (11.5% of total equity), an increase of \$1,668, primarily attributable to positive operating results.

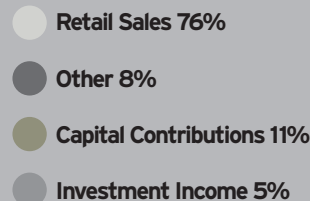
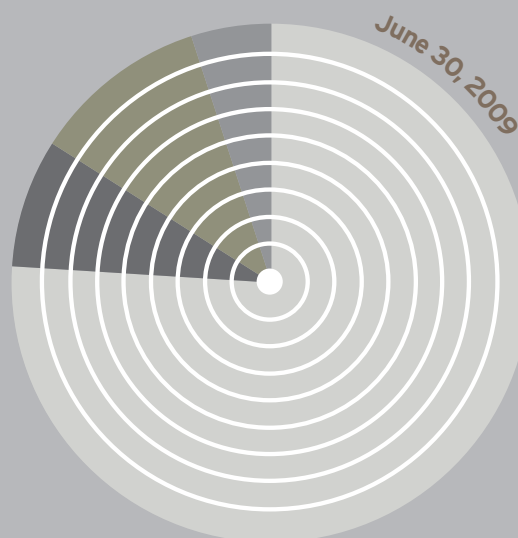
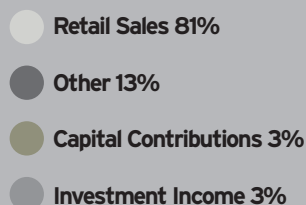
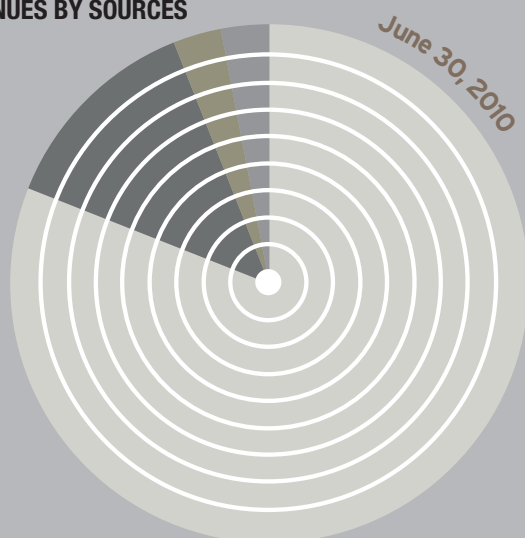
**Fiscal Year 2009** Total Water fund equity increased \$656 (less than 1.0%) to \$275,143. The largest portion of the equity, \$237,738 (86.4%), is represented by investment in capital assets, which increased by \$6,841 (3.0%) due to the amount of capital assets constructed or purchased that were not bond funded. The restricted portion increased by \$788 primarily due to increases in Water Conservation and Reclamation program assets. The unrestricted portion decreased by \$6,973 due to positive operating results for fiscal year 2009, offset by the effects of the Special Item (see Note 8) and the use of unrestricted equity to fund capital projects.

The Water Utility's overall increase in equity of \$2,851 and \$656 during fiscal years 2010 and 2009, respectively, was due to positive operating results that can be further explained in the following Condensed Statements of Changes in Equity:

## CONDENSED STATEMENTS OF CHANGES IN EQUITY (NET ASSETS)

	2010	2009	2008
Revenues:			
Retail sales, net	\$ 51,147	\$ 49,591	\$ 46,164
Other revenues	8,553	5,311	5,206
Investment income	1,815	3,169	3,357
Capital contributions	2,052	7,148	18,116
Total revenues	63,567	65,219	72,843
Expenses:			
Operations and maintenance	32,151	31,501	27,795
Purchased energy and water	4,362	4,578	6,316
Depreciation	10,660	9,771	8,806
Interest expenses and fiscal charges	7,886	7,049	4,401
Total expenses	55,059	52,899	47,318
Transfers to the City's general fund	(5,657)	(5,276)	(4,955)
Special item	-	(6,388)	-
Changes in equity	2,851	656	20,570
Equity, July 1	275,143	274,487	253,917
Equity, June 30	\$ 277,994	\$ 275,143	\$ 274,487

# REVENUES BY SOURCES



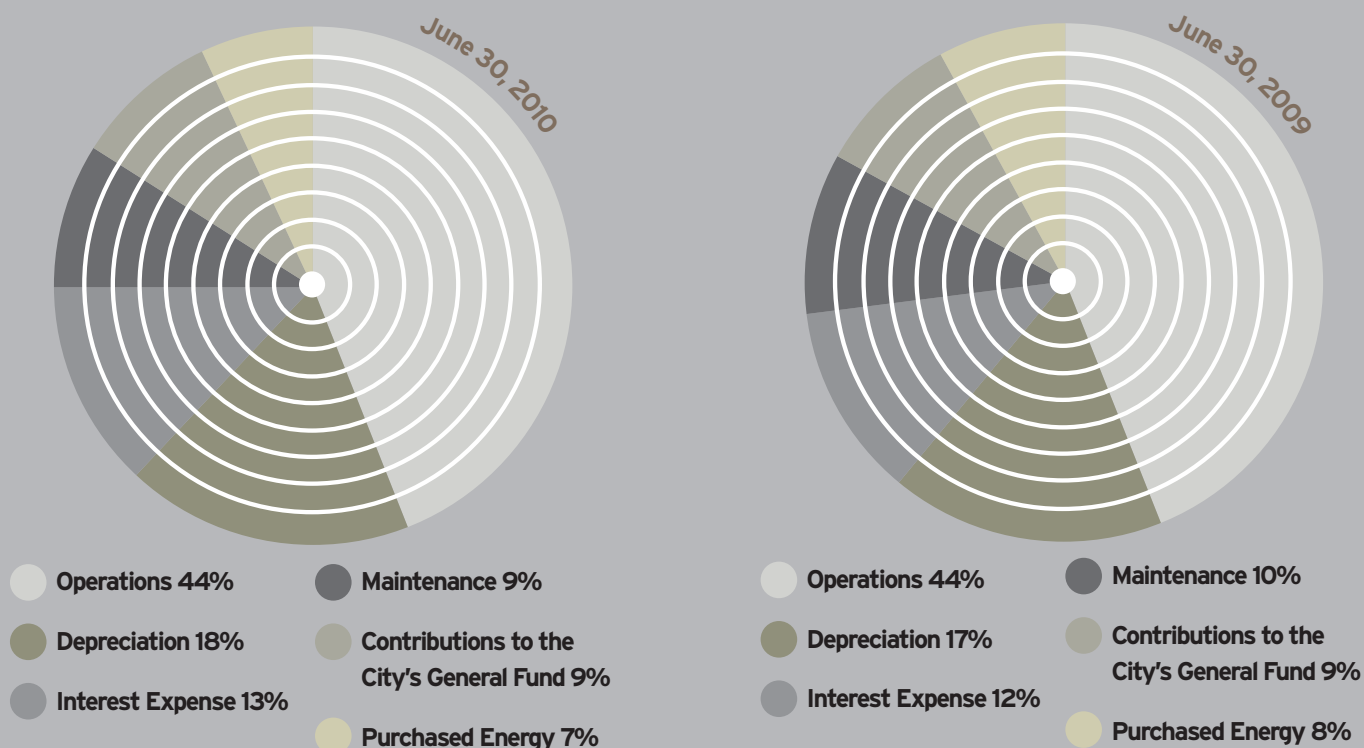
**Fiscal Year 2010** Total revenues of \$63,567 decreased by \$1,652 (2.5%) from prior fiscal year, due to the following major changes:

- Retail sales (residential, commercial, industrial, and other sales), net of reserve/recovery, totaled \$51,147, an increase of \$1,556 (3.1%) over the prior fiscal year. Retail sales continue to be the primary revenue source for the Water Utility, making up 80.5% of total revenues. The increase in retail sales was primarily due to a 10.0% rate increase that became effective November 1, 2009 as part of the SAFE W.A.T.E.R. Plan, offset by a 9.2% decrease in retail consumption.
- Other revenues of \$8,553 increased by \$3,242 (61.0%) predominantly due to a \$963 increase in wholesale sales attributed to the Western Municipal Water Wheeling agreement and an increased gain on sale of land in the amount of \$1,801.
- Investment income of \$1,815 reflects a decrease of \$1,354 (42.7%), due to an overall decrease of \$640 in the fair market value and interest from investments and a decrease of \$714 on interest earned on bond construction cash.
- Capital contributions were \$2,052 and reflect a decrease of \$5,096 (71.3%), primarily due to a decrease of \$2,187 in contributions from State grants for reimbursable capital project costs, decreases of \$2,656 in non-cash developer contributions, and \$267 from developers for construction projects due to the slowdown in development related activities.

**Fiscal Year 2009** Total revenues of \$65,219 decreased by \$7,624 (10.5%) from prior fiscal year, due to the following major changes:

- Net retail sales were \$49,591, 76.0% of total revenues, reflecting an increase of \$3,427 (7.4%) in net retail sales from the prior fiscal year primarily due to a 10.0% rate increase that became effective November 1, 2008 as part of the SAFE W.A.T.E.R. Plan, offset by a 2.5% decrease in retail consumption.
- Other revenues of \$5,311 increased by \$105 (2.0%) predominantly due to an increase in wholesale sales attributed to the Wheeling agreement with WMWD.
- Investment income of \$3,169 reflects a decrease of \$188 (5.6%), primarily due to an overall decrease of \$644 in the fair market value and interest from investments, offset by an increase of \$456 on interest earned on bond construction projects due to the slowdown in development related activities.
- Capital contributions were \$7,148 and reflect a decrease of \$10,968 (60.5%), primarily due to a decrease of \$7,512 in contributions from State grants for reimbursable capital project costs, decrease of \$1,307 in non-cash contributions, and \$1,558 from developers for construction projects due to the slowdown in the development related activities.

## EXPENSES BY SOURCES



**Fiscal Year 2010** Total expenses, excluding general fund transfer, were \$55,059, an increase of \$2,160 (4.1%), due to the items discussed below:

- Operations and maintenance costs were \$32,151, and reflect an increase of \$650 (2.1%), primarily due to increases in personnel-related expenses, offset by a decrease in general operating expenses mainly due to over-pumping of entitlements in previous years which were recorded in fiscal year 2009. Overall purchased energy costs were consistent with prior year.
- Interest expense and fiscal charges were \$7,886, and reflect an increase of \$837 (11.9%), due to increased interest costs associated with the 2009 bond issues.
- Depreciation expense of \$10,660 increased \$889 (9.1%) primarily due to the completion of \$36,416 of capital projects that were included as depreciable capital assets.

**Fiscal Year 2009** Total expenses were \$52,899, reflecting an increase of \$5,581 (11.8%), due to an increase in personnel-related expenses, professional service costs, electricity costs for pumping water, interest expense and fiscal charges due to a full year of interest costs associated with the 2008 Water Revenue Series B bonds, and depreciation for the completion of \$45,307 of capital projects that were included as depreciable assets.

## TRANSFERS

Transfers to the City's general fund are limited to a maximum of 11.5% of the prior year gross operating revenues by Section 1204(f) of the City Charter. The City uses these funds to help provide needed public services to the residents of the City, including police, fire, parks, libraries and other benefits.

**Fiscal Year 2010** The Water Utility transferred the maximum allowable by the City Charter to the City's general fund, or \$5,657, an increase of \$381, primarily the result of a \$3,427 increase in retail sales for fiscal year 2009.

**Fiscal Year 2009** Transfers to the City's general fund of \$5,276 increased by \$321, primarily the result of increased retail sales of \$2,761 for fiscal year 2008.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### CAPITAL ASSETS

The Water Utility's investment in Capital Assets includes investments in source of supply, pumping, treatment, transmission and distribution facilities, and construction in progress, as well as general items such as office equipment, furniture, etc.

The following table summarizes the Utility's capital assets, net of depreciation as of June 30:

	2010	2009	2008
Source of supply	\$ 49,708	\$ 49,485	\$ 24,719
Pumping	16,884	13,534	11,451
Treatment	19,246	19,843	20,613
Transmission and distribution	248,996	226,454	217,071
General	5,720	5,542	5,253
Land	10,809	10,809	7,682
Intangible	6,307	6,015	5,969
Construction in progress	15,122	24,407	31,878
Total	\$ 372,792	\$ 356,089	\$ 324,636

**Fiscal Year 2010** The Water Utility's investment in capital assets, net of accumulated depreciation was \$372,792, an increase of \$16,703 (4.7%). The increase resulted primarily from the following significant capital projects:

- \$19,221 for system expansion and improvements including pump station replacements, reservoir construction and facilities rehabilitation.
- \$5,074 for continued pipeline replacement programs.
- \$442 for completion of the John W. North Treatment facility which will greatly increase the water supply (one of the recommended system improvements in the SAFE W.A.T.E.R. Plan) and other capital projects.

**Fiscal Year 2009** Investment in capital assets, net of accumulated depreciation, for the Water Utility increased \$31,453 (9.7%), for a total of \$356,089. Major capital projects included \$6,642 for continued pipeline replacement programs, \$23,638 for system expansion, reservoir construction, and improvements to water facilities, \$4,129 for the John W. North Treatment facility, and \$2,664 for other capital assets.

### DEBT ADMINISTRATION

The following table summarizes outstanding long-term debt (revenue bonds) as of June 30:

	2010	2009	2008
Revenue bonds	\$ 222,525	\$ 149,020	\$ 153,395
Contracts payable	949	949	964
Less:			
Current portion	(4,810)	(4,565)	(4,525)
Unamortized deferred bond refunding costs	(4,127)	(3,651)	(3,748)
Unamortized capital appreciation	(110)	(427)	(938)
Unamortized bond premium (discount)	4,987	1,646	1,651
Total	\$ 219,414	\$ 142,972	\$ 146,799

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants, of 1.25. The Water Utility's debt service coverage ratio was 2.08, 2.25, and 3.88 at June 30, 2010, 2009, and 2008, respectively. The debt is backed by the revenues of the Utility (revenue bonds).

**Fiscal Year 2010** Total long-term debt increased by \$76,442 (53.5%) to \$219,414, due to bond proceeds of \$99,685 for the issuance of the 2009 Water Refunding/Revenue Series A (Tax-exempt Bonds) and B (Federally-taxable Build America Bonds) on December 22, 2009, offset by advance refundings of \$21,765 for the outstanding balance of the 1998 Water Refunding/Revenue Bonds and portion (\$1,675) of the 2001 Water Revenue Bonds, \$3,589 of principal repayments, and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

**Fiscal Year 2009** Long-term debt of \$142,972 decreased by \$3,827 (2.6%), due to \$3,787 of principal repayments and amortization of deferred bond refunding costs, capital appreciation, and bond discounts and premiums.

Additional information on the Water Utility's long-term debt can be found in Note 4 on pages 70 to 72 of this report.

## CREDIT RATINGS

In November 2009, Standard & Poor's assigned a "AA+" long-term rating on the 2009 Water Refunding/Revenue Series A and B Bonds and affirmed the "AA+" underlying rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "strong financial performance including past and projected debt service coverage and ample cash reserves; advantageous water supply position with cheap groundwater sources providing nearly all of the city's water, thereby helping the city to maintain cheap rates to its customers; and local economic base that is enduring the current economic downturn."

In March 2010, Fitch Ratings recalibrated a "AA+" from a "AA" long-term rating on the 2009 Water Refunding/Revenue Series A and B Bonds and the underlying rating on the Water Utility's outstanding debt. The ratings reflect the Utility's "strong debt service coverage and liquidity levels, minimal reliance on connection fee revenues, plentiful groundwater supply providing a competitive advantage in the region, capital plan that is designed to increase system reliability, and water system that provides an essential service with a low cost of supplies."

In April 2010, Moody's recalibrated a "Aa2" from a "Aa3" long-term global scale rating on the 2009 Water Refunding/Revenue Series A and B Bonds. The ratings reflect the Utility's "consistent rate increases that have helped drive sound current and projected fiscal operations, water source independence which should insulate the utility from the vulnerabilities of the State's water supply, and healthy debt service coverage levels."



## ECONOMIC FACTORS AND RATES

Although inflationary trends in the Riverside region continue to compare favorably to the national indices, the Water Utility's escalation in costs are not strictly attributable to inflation. One of the primary drivers of the increase in costs relates to the Water Utility's aging infrastructure.

To address this concern, in March 2006, the Board of Public Utilities, after the requisite public hearing, adopted and the City Council unanimously approved, the SAFE W.A.T.E.R. (Water Available to Everyone in Riverside) Plan. This plan implements system improvements contained in the Water Master, Water Supply and Asset Management Plans. The SAFE W.A.T.E.R. Plan is initially funded by a fifty-two percent, five-year water rate increase, consisting of a twelve percent and four-ten percent increases effective November 1, 2006, 2007, 2008, 2009, and 2010, respectively.

The Utility is impacted by the recent economic decline affecting virtually all industries in the United States, with retail consumption decreasing 9.2% and 2.5% in fiscal years 2010 and 2009, respectively, over the previous year levels. In addition, the water revenues are dependent on weather conditions, with significant wet weather years impacting revenue as residents reduce water used for outdoor landscaping.

In November 2009, the California legislature enacted a comprehensive set of laws aimed at improving the state's water supply reliability and restoring the Sacramento-San Joaquin River Delta ecosystem. The package included four policy bills and an \$11.14 billion general obligation bond measure now targeted for the November 2012 ballot. One of the bills enacted, SBX7 7, established a statewide water conservation program that requires a 20% reduction in urban per-capita water use by 2020. It also requires development of agricultural water management plans by December 31, 2012.

The legislation identifies multiple pathways for compliance with the urban conservation requirements, including an incentive-based Option 4 to be developed by the Department of Water Resources by December 31, 2010. The Water Utility has developed a comprehensive Water Efficiency Master Plan that outlines the steps necessary to comply with the 20% per capita reduction requirement. Significant conservation of resources by our consumers could negatively impact revenue. Management monitors water sales, revenue and expenses and ensures that ongoing adjustments to budgets are made to keep expenses in line with revenue.

The state has reduced water exports from northern to southern California which has significantly increased the costs for imported water. With completion of the John W. North Water Treatment Plant, Riverside is water independent and does not expect any increased costs to its customers due to the curtailment of water deliveries to Southern California. This new plant created a new source of supply and the City has executed an agreement with another local water supplier which is expected to produce additional revenue of \$1.5 to \$2.0 million per year.





In 2009, the United States Fish and Wildlife Service issued a draft rule designating most of the Santa Ana River and portions of the San Gabriel River as critical habitat for the Santa Ana Sucker (*Catostomus santaanae*), a federally threatened fish species. A critical habitat designation on the Santa Ana River has the potential to interfere with a number of planned water supply projects by the Water Utility. Management has been actively involved with the critical habitat designation and has engaged with the US Fish and Wildlife Service and Congress as the rule making process continues.

As a member of the Santa Ana Sucker Task Force, the Santa Ana Sucker Conservation Team, and individually, the Water Utility has developed and shared potential alternative processes and practices that will help protect the fish and ensure water supply projects can progress. The Utility will continue to monitor this process and advocate at the state and federal level for sound environmental policy.

In addition to the economic factors identified above, management continually plans for and identifies other issues or potential contingencies that could impact future rates such as reclaimed water, system growth, source of supply, ground water contamination, stricter contaminant guidelines, and other legislative mandates that could potentially impact all Californians, both locally and at the state and federal levels. In an effort to control costs to its customers, the Utility is aggressive in pursuing outside parties, and holding them responsible for any negative effects they may cause to Riverside's water quality.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Riverside Water Utility's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Assistant General Manager Finance/Administration, Riverside Public Utilities, 3901 Orange Street, Riverside, CA 92501. Additional financial information can also be obtained by visiting [www.riversidepublicutilities.com](http://www.riversidepublicutilities.com).



# Balance Sheets: Water



ASSETS	June 30, 2010	June 30, 2009
	(in thousands)	
UTILITY PLANT:		
Source of supply	\$ 62,820	\$ 61,392
Pumping	24,673	20,782
Treatment	23,947	23,772
Transmission and distribution	356,201	327,189
General	14,080	13,275
	481,721	446,410
Less accumulated depreciation	(141,167)	(131,552)
	340,554	314,858
Land	10,809	10,809
Intangible	6,307	6,015
Construction in progress	15,122	24,407
Total utility plant (Note 3)	372,792	356,089
RESTRICTED ASSETS:		
Cash and cash equivalents (Note 2)	6,433	5,156
Cash and investments at fiscal agent (Note 2)	86,907	27,726
Total restricted non-current assets	93,340	32,882
OTHER NON-CURRENT ASSETS:		
Deferred pension costs	5,605	5,705
Deferred bond issuance costs	2,076	1,624
Deferred debits (Note 4)	6,580	3,715
Total other non-current assets	14,261	11,044
Total non-current assets	480,393	400,015
CURRENT ASSETS:		
Unrestricted assets:		
Cash and cash equivalents (Note 2)	29,370	29,679
Accounts receivable, less allowance for doubtful accounts		
2010 \$318; 2009 \$214	9,620	10,266
Accrued interest receivable	185	146
Prepaid expenses	5	7
Total unrestricted current assets	39,180	40,098
Restricted assets:		
Cash and cash equivalents (Note 2)	2,079	1,761
Conservation and Reclamation Programs receivable	106	150
Total restricted current assets	2,185	1,911
Total current assets	41,365	42,009
Total assets	\$ 521,758	\$ 442,024

\*See accompanying notes to the financial statements



# Balance Sheets: Water



## EQUITY AND LIABILITIES

	June 30, 2010	June 30, 2009
	(in thousands)	
<b>EQUITY:</b>		
Invested in capital assets, net of related debt	\$ 237,366	\$ 237,738
Restricted for:		
Debt service (Note 5)	6,433	5,156
Conservation and Reclamation Programs	2,166	1,888
Unrestricted	32,029	30,361
Total equity	277,994	275,143
<b>LONG-TERM OBLIGATIONS, LESS CURRENT PORTION (NOTE 4)</b>	219,414	142,972
<b>OTHER NON-CURRENT LIABILITIES:</b>		
Pension obligation (Notes 1 and 4)	5,466	5,584
Postemployment benefits payable (Notes 1 and 4)	881	526
Derivative instrument (Note 4)	7,130	4,265
Total other non-current liabilities	13,477	10,375
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accrued interest payable	1,899	1,156
Conservation and Reclamation Programs payable	20	23
Current portion of long-term obligations (Note 4)	4,660	4,415
Total current liabilities payable from restricted assets	6,579	5,594
<b>CURRENT LIABILITIES:</b>		
Accounts payable	3,529	7,229
Current portion of long-term obligations (Note 4)	150	150
Customer deposits	615	561
Total current liabilities	4,294	7,940
Total liabilities	243,764	166,881
<b>COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)</b>	-	-
Total equity and liabilities	\$ 521,758	\$ 442,024

\*See accompanying notes to the financial statements

# Statements of Revenues, Expenses and Changes in Equity: Water



	For the Fiscal Years	
	Ended June 30,	
	2010	2009
	(in thousands)	
<hr/>		
OPERATING REVENUES:		
Residential sales	\$ 33,439	\$ 32,368
Commercial sales	16,331	15,928
Other sales	1,720	1,763
Wholesale sales	1,765	802
Conservation and Reclamation Programs	837	934
Other operating revenue	3,442	3,128
	<hr/>	<hr/>
Total operating revenues before (reserve)/recovery	57,534	54,923
Reserve for uncollectible, net of bad debt recovery	(343)	(468)
	<hr/>	<hr/>
Total operating revenues, net of (reserve)/recovery	57,191	54,455
<hr/>		
OPERATING EXPENSES:		
Operations	25,972	25,470
Maintenance	5,620	5,590
Purchased energy	4,362	4,578
Conservation and Reclamation Programs	559	441
Depreciation	10,660	9,771
	<hr/>	<hr/>
Total operating expenses	47,173	45,850
	<hr/>	<hr/>
Operating income	10,018	8,605
<hr/>		
NON-OPERATING REVENUES (EXPENSES):		
Investment income	1,815	3,169
Interest expense and fiscal charges	(7,886)	(7,049)
Gain (loss) on sale of capital assets	7	(598)
Gain on sale of land	1,835	34
Other	667	1,011
	<hr/>	<hr/>
Total non-operating revenues (expenses)	(3,562)	(3,433)
	<hr/>	<hr/>
Income before contributions and transfers	6,456	5,172
<hr/>		
Capital contributions	2,052	7,148
Transfers out - contributions to the City's general fund	(5,657)	(5,276)
	<hr/>	<hr/>
Total capital contributions and transfers out	(3,605)	1,872
	<hr/>	<hr/>
Income before special item	2,851	7,044
<hr/>		
SPECIAL ITEM:		
Intra-entity property acquisition	-	(6,388)
	<hr/>	<hr/>
Increase in equity	2,851	656
	<hr/>	<hr/>
EQUITY, BEGINNING OF YEAR	275,143	274,487
	<hr/>	<hr/>
EQUITY, END OF YEAR	\$ 277,994	\$ 275,143

\*See accompanying notes to the financial statements

# Statements of Cash Flows: Water

For the Fiscal Years  
Ended June 30,  
2010 2009  
(in thousands)

## CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers and users	\$ 58,459	\$ 54,045
Cash paid to suppliers and employees	(40,102)	(37,948)
Other receipts	667	1,011
Net cash provided by operating activities	19,024	17,108

## CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:

Transfers out - contributions to the City's general fund	(5,657)	(5,276)
Intra-entity property acquisition	-	(6,388)
Principal paid on pension obligation bonds	(118)	(98)
Net cash used by non-capital financing activities	(5,775)	(11,762)

## CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of utility plant	(26,021)	(37,714)
Proceeds from the sale of utility plant	1,901	128
Principal paid on long-term obligations	(4,415)	(4,390)
Interest paid on long-term obligations	(7,348)	(6,582)
Proceeds from revenue bonds, including premium	102,658	-
Deposit to escrow account for advance bond refunding	(21,765)	-
Bond issuance costs	(695)	-
Capital contributions	1,127	11,871
Net cash provided (used) by capital and related financing activities	45,442	(36,687)

## CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of investment securities	82	684
Income from investments	1,776	3,281
Net cash provided by investing activities	1,858	3,965
Net increase (decrease) in cash and cash equivalents	60,549	(27,376)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (including \$26,878 and \$54,356 at June 30, 2009 and June 30, 2008, respectively, reported in restricted accounts)

56,557	83,933
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CASH AND CASH EQUIVALENTS, END OF YEAR (including \$87,736 and \$26,878 at June 30, 2010 and June 30, 2009, respectively, reported in restricted accounts)

\$ 117,106	\$ 56,557
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## RECONCILIATION OF OPERATING INCOME

### TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 10,018	\$ 8,605
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	10,660	9,771
Amortization of deferred charges-pension costs	100	77
Increase (decrease) in allowance for uncollectible accounts	104	(86)
Decrease (increase) in accounts receivable	767	(726)
Decrease (increase) in prepaid expenses	2	(1)
(Decrease) in accounts payable	(3,700)	(1,776)
Increase in postemployment benefits payable	355	276
(Decrease) increase in Conservation & Reclamation Programs	(3)	23
Increase (decrease) in customer deposits	54	(66)
Other receipts	667	1,011
Net cash provided by operating activities	\$ 19,024	\$ 17,108

## SCHEDULE OF NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

Capital contributions - capital assets	744	3,399
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\*See accompanying notes to the financial statements

# Note 1: Summary of Significant Accounting Policies

The Water Utility exists under, and by virtue of, the City Charter enacted in 1883. The Water Utility is responsible for the production, transmission and distribution of water for sale in the City, except for certain areas served by another water utility.

## BASIS OF ACCOUNTING

The Water Utility uses the accrual basis of accounting as required for enterprise funds with accounting principles generally accepted in the United States of America as applicable to governments. The accounting records of the Water Utility are also in conformity with the Uniform System of Accounts prescribed by the California Public Utilities Commission. The Water Utility is not subject to the regulations of the California Public Utilities Commission. The Water Utility is not required to and does not elect to implement the pronouncements of the Financial Accounting Standards Board issued after November 1989.

## USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during a reporting period. Actual results could differ from those estimates.

## REVENUE RECOGNITION

Water Utility customers are billed monthly. Unbilled water service charges are recorded at year-end and are included in accounts receivable. Unbilled accounts receivable totaled \$3,074 at June 30, 2010, and \$2,737 at June 30, 2009.

An allowance for doubtful accounts is maintained for utility and miscellaneous accounts receivable. The balance in this account is adjusted at fiscal year-end to approximate the amount anticipated to be uncollectible.

## UTILITY PLANT AND DEPRECIATION

Utility plant assets are valued at historical costs or estimated historical cost, if actual historical cost is not available. Costs include labor; materials; interest during construction; allocated indirect charges such as engineering, supervision, construction and transportation equipment; retirement plan contributions and other fringe benefits. Contributed plant assets are valued at estimated fair value on the date contributed. The cost of relatively minor replacements is included in maintenance expense. Intangible assets that cost more than one hundred thousand dollars with useful lives of at least three years are capitalized and are recorded at cost.

Depreciation is recorded over the estimated useful lives of the related assets using the straight-line method. The estimated useful lives are as follows:

Supply, pumping and treatment plant .....	15-60 years
Transmission and distribution plant .....	25-50 years
General plant and equipment .....	3-50 years

## RESTRICTED ASSETS

Proceeds of revenue bonds yet to be used for capital projects, as well as certain resources set aside for debt service, are classified as restricted assets on the Balance Sheets because their use is limited by applicable bond covenants.

## Note 1: Summary of Significant Accounting Policies (continued)

In June 2004, the City began collecting a surcharge for water conservation and reclamation programs. This surcharge was approved by the City Council and was phased in over a three-year period with a 0.5%, 1.0% and 1.5% surcharge effective June 1, 2004, 2005 and 2006, respectively, to be in effect for services rendered on or after June 1, 2004 through May 31, 2014. The programs and services offered include conservation, education, and water use efficiency programs; programs to encourage the use of reclaimed water; research, development and demonstration programs to advance science and technology with respect to water conservation and reclamation; and water service provided to low-income customers. The activity associated with the surcharge is reflected in the accompanying financial statements on the Balance Sheets, Statements of Revenues, Expenses and Changes in Equity, and Statements of Cash Flows.

## CASH AND INVESTMENTS

In accordance with Water Utility policy, the Water Utility's cash and investments, except for cash and investments with fiscal agents, are invested in a pool managed by the Treasurer of the City. The Water Utility does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on the month end cash balances.

The City values its cash and investments in accordance with provisions of Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB 31), which requires governmental entities, including governmental external investment pools, to report certain investments, at fair value in the Statements of Net Assets/Balance Sheets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using published market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

City-wide information concerning cash and investments for the year ended June 30, 2010, including authorized investments, custodial credit risk, credit and interest rate risk for debt securities and concentration of investments, carrying amount and market value of deposits and investments may be found in the notes to the City's "Comprehensive Annual Financial Report."

## CASH AND INVESTMENTS AT FISCAL AGENTS

Cash and investments maintained by fiscal agents are considered restricted by the Utility and are pledged as collateral for payment of principal and interest on outstanding bonds, or for use on construction of capital assets.

## DERIVATIVES

On July 1, 2009, the Water Utility adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53). This Statement requires the Utility to report its derivative instruments at fair value. Changes in fair value for effective hedges are to be reported as deferrals on the Balance Sheets. Changes in fair value of derivative instruments not meeting the criteria for an effective hedge, or that are associated with investments are to be reported in the investment section of the Statements of Revenues, Expenses and Changes in Equity.

The Utility has determined that its interest rate swaps associated with variable rate obligations are derivative instruments under GASB 53. The swaps are comprised of an "At-the-Market Swap" derivative instrument and an "Off-Market Swap" deferral balance as described below.

The Utility's evaluation of the "At-the-Market Swap" has concluded that it is an effective hedge under the synthetic instrument method. As a result, upon implementation of GASB 53 beginning July 1, 2009, the negative fair value of the "At-the-Market Swap" has been recorded and deferred on the Balance Sheets. The Balance Sheets for June 30, 2009 have been restated to reflect the retroactive application of GASB 53. Disclosure requirements are presented in Note 4 under Interest Rate Swaps on Revenue Bonds.

The "Off-Market Swap" deferral balance was a result of the refunding of the Auction Rate Security (ARS) debt that occurred in 2008. Based on the retroactive application of GASB 53, hedge accounting ceased to be applied on the interest rate swaps associated with the ARS upon the occurrence of the refunding. Since variable rate obligations were issued in the refunding, the deferral balance has been treated as a deferred loss and recorded on the Balance Sheets under long-term obligations.



**Note 1: Summary of Significant Accounting Policies (continued)**

**BOND PREMIUM/DISCOUNTS, CAPITAL APPRECIATION, ISSUANCE COSTS, GAINS AND LOSSES ON REFUNDING**

Bond premium/discounts, capital appreciation, issuance costs and gains and losses on refunding (including gains and losses related to interest rate swap transactions) are deferred and amortized over the term of the bonds using the effective interest method. Bond premium/discounts, capital appreciation, and gains and losses on refunding are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as other assets. Capital appreciation is the annual increase in the value of bonds originally issued at a discounted amount. These bonds do not pay annual interest and mature at a pre-determined par value.

**CUSTOMER DEPOSITS**

The City holds customer deposits as security for the payment of utility bills. The Water Utility's portion of these deposits as of June 30, 2010 and 2009 was \$615 and \$561, respectively (including \$112 and \$109, respectively, held on behalf of La Sierra Water Company pending dissolution and distribution of remaining cash asset to shareholders, of which the City is the largest owner).

**COMPENSATED ABSENCES**

The accompanying financial statements include accruals for salaries, fringe benefits and compensated absences due employees at June 30, 2010 and 2009. The Water Utility treats compensated absences due employees as an expense and a current liability. The amount accrued for compensated absences was \$1,455 at June 30, 2010, and \$1,266 at June 30, 2009, and is included in accounts payable in the accompanying Balance Sheets.

Employees receive 10 to 25 vacation days per year based upon length of service. A maximum of two years vacation accrual may be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, certain employees or their estates receive a percentage of unused sick leave paid in a lump sum based on longevity.

**INSURANCE PROGRAMS**

The Water Utility participates in a self-insurance program for workers' compensation and general liability coverage that is administered by the City. The Water Utility pays an amount to the City based on actuarial estimates of the amounts needed to fund prior and current year claims and incidents that have been incurred but not reported. The City maintains property insurance on most City property holdings, including Utility plant with a limit of \$1 billion.

City-wide information concerning risks, insurance policy limits and deductibles and designation of general fund balance for risks for the year ended June 30, 2010, may be found in the notes to the City's "Comprehensive Annual Financial Report."

Although the ultimate amount of losses incurred through June 30, 2010 is dependent upon future developments, management believes that amounts paid to the City are sufficient to cover such losses. Premiums paid to the City by the Water Utility were \$526 and \$380 for the years ended June 30, 2010 and 2009, respectively. Any losses above the City's reserves would be covered through increased rates charged to the Water Utility in future years.

**EMPLOYEE RETIREMENT PLAN**

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for participating public entities within the State of California.

All permanent full-time and selected part-time employees are eligible for participation in PERS. Benefits vest after five years of service and are determined by a formula that considers the employee's age, years of service and salary. Employees may retire at age 55 and receive 2.7 percent of their highest annual salary for each year of service completed. PERS also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute and City ordinance.

**Note 1: Summary of Significant Accounting Policies (continued)**

Employee contributions are 8.0 percent of their annual covered salary. The Water Utility is required to contribute the remaining amounts necessary to fund the benefits for its employees using the actuarial basis recommended by the PERS actuaries and actuarial consultants and adopted by the PERS Board of Administration. The employer portion of PERS funding as of June 30, 2010 and 2009 was 14.22 percent and 14.17 percent, respectively, of annual covered payroll. The Water Utility pays both the employee and employer contributions. The total Water Utility's contribution to PERS as of June 30, 2010 and 2009 was \$2,617 and \$2,138, respectively.

City-wide information concerning elements of the unfunded actuarial accrued liabilities, contributions to PERS for the fiscal year ended June 30, 2010, and recent trend information may be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

### PENSION OBLIGATION BONDS

In 2005, the City issued Pension Obligation Bonds in the amount of \$60,000, of which the Water Utility's share is \$5,890. The deferred charge relating to the net pension asset will be amortized over 19 years in accordance with the method used by PERS for calculating actuarial gains and losses. The Bond proceeds were deposited with PERS to fund the unfunded actuarial accrued liability for non-safety employees. The balance in deferred pension costs as of June 30, 2010 and 2009 was \$5,605 and \$5,705, respectively. For more discussion relating to the City's issue, see the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

### OTHER POSTEMPLOYMENT BENEFITS

The City contributes to two single-employer defined benefit healthcare plans: Stipend Plan (SP) and the Implied Subsidy Plan (ISP). The plans provide other postemployment health care benefits (OPEB) for eligible retirees and beneficiaries.

The Stipend Plan is available to eligible retirees and beneficiaries pursuant to their collective bargaining agreements. The Water Utility currently contributes to a bargaining unit through the Service Employee's International Union General Trust (SEIUG). Benefit provisions for the Stipend Plan for eligible retirees and beneficiaries are established and amended through the various memoranda of understanding (MOU). The MOU's are agreements established between the City and the respective employee associations. The City does not issue separate stand-alone financial reports for the plans, instead financial information for the trust funds can be obtained by contacting the individual association.

The Water Utility also provides benefits to retirees in the form of an implicit rate subsidy (Implied Subsidy). Under an implied rate subsidy, retirees and current employees are insured together as a group, thus creating a lower rate for retirees than if they were insured separately. Although the retirees are solely responsible for the cost of their health insurance benefits through this plan, the retirees are receiving the benefit of a lower rate.

The contribution requirements of the Water Utility for the Stipend Plan are established and may be amended through the MOU between the City and the unions. The Water Utility's contribution is financed on a "pay-as-you-go-basis" and the current contribution is unfunded. The contribution requirements of the Water Utility's Implied Subsidy Plan are established by the City Council. The Water Utility is not required by law or contractual agreement to provide funding other than the pay-as-you-go amount necessary to provide current benefits to eligible retirees and beneficiaries.

The Water Utility's annual OPEB cost (expense) for each plan is calculated based on annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) (UAAL) over a period not to exceed thirty years. The Water Utility's OPEB liability as of June 30, 2010 and 2009 was \$881 and \$526, respectively.

City-wide information concerning the description of the plans, funding policy and annual OPEB cost, funding status and funding progress, and actuarial methods and assumptions for the year ended June 30, 2010 can be found in the notes to the City's "Comprehensive Annual Financial Report" for the fiscal year ended June 30, 2010.

Note 1: Summary of Significant Accounting Policies (continued)

## EQUITY

The Water Utility's equity consists of its net assets (assets less liabilities) which are classified into the following three components:

***Invested in capital assets, net of related debt*** – this component consists of capital assets (net of accumulated depreciation) and unamortized debt expenses reduced by the outstanding balance of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted*** – this component consists of net assets on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

***Unrestricted*** – this component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

## CONTRIBUTIONS TO THE CITY'S GENERAL FUND

Pursuant to the City Charter, the Water Utility may transfer up to 11.5 percent of its prior year's gross operating revenues to the City's general fund. In fiscal years ended June 30, 2010 and 2009, the Water Utility transferred 11.5 percent of gross operating revenues less wholesale sales and Conservation and Reclamation Program revenues, or \$5,657 and \$5,276, respectively.

## CASH AND CASH EQUIVALENTS

For the Statements of Cash Flows, cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less, and all bond construction proceeds available for capital projects. Pooled cash and investments in the City's Treasury represent monies in a cash management pool. Such accounts are similar in nature to demand deposits, and are classified as cash equivalents for the purpose of presentation in the Statements of Cash Flows.

## BUDGETS AND BUDGETARY ACCOUNTING

The Water Utility presents, and the City Council adopts, an annual budget. The proposed budget includes estimated expenses and forecasted revenues. The City Council adopts the Water Utility's budget in June each year via resolution.

## RECLASSIFICATIONS

Certain reclassifications have been made to prior year's financial statements to conform with the current year's presentation.

## PRIOR YEAR DATA

Selected information regarding the prior year have been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.



## Note 2: Cash and Investments

Cash and investments at June 30, 2010 and 2009, consist of the following (in thousands):

	June 30, 2010	June 30, 2009
	Fair Value	
Equity interest in City Treasurer's investment pool	\$ 37,882	\$ 36,596
Investments at fiscal agent	83,950	24,691
	121,832	61,287
Deposits with financial institutions <sup>3</sup>	2,957	3,035
Total cash and investments	\$ 124,789	\$ 64,322

The amounts above are reflected in the accompanying financial statements as:

	June 30, 2010	June 30, 2009
Unrestricted cash and cash equivalents	\$ 29,370	\$ 29,679
Restricted cash and cash equivalents	8,512	6,917
Restricted cash and investments at fiscal agent	86,907	27,726
Total cash and investments	\$ 124,789	\$ 64,322

Cash and investments distribution by maturities as of year end are as follows:

Investment Type	Total	Remaining Maturity (In Months)			
		12 Months or less	13 to 24 Months	25 to 60 Months	More than 60 Months
Held by fiscal agent					
Money market funds	\$ 981	\$ 981	\$ -	\$ -	\$ -
Investment contracts <sup>1</sup>	82,969	-	78,551	-	4,418
City Treasurer's investment pool <sup>2</sup>	37,882	-	-	37,882	-
Total <sup>3</sup>	\$ 121,832	\$ 981	\$ 78,551	\$ 37,882	\$ 4,418

Presented below is the actual rating as of year end for each investment type:

Investment Type	Total	Rating as of Year End	
		AAA	Unrated
Held by fiscal agent			
Money market funds	\$ 981	\$ 981	\$ -
Investment contracts	82,969	-	82,969
City Treasurer's investment pool <sup>2</sup>	37,882	-	37,882
Total <sup>3</sup>	\$ 121,832	\$ 981	\$ 120,851

<sup>1</sup> Amounts related to bond construction proceeds are invested in specific maturities but are available for construction of capital assets as funding is needed.

<sup>2</sup> Additional information on investment types and credit risk may be found in the City's "Comprehensive Annual Financial Report."

<sup>3</sup> \$2,957 in Certificates of Deposits is not considered an investment under GASB Statement No. 40, *Deposit and Investment Risk Disclosures*.



## Note 3: Utility Plant

The following is a summary of changes in utility plant during the fiscal years ended June 30, 2010 and 2009 (in thousands):

	Balance, As of 6/30/08	Additions	Retirements/ Transfers	Balance, As of 6/30/09	Additions	Retirements/ Transfers	Balance, As of 6/30/10
Source of supply	\$ 35,880	\$ 25,942	\$ (430)	\$ 61,392	\$ 1,428	\$ -	\$ 62,820
Pumping	18,219	2,563	-	20,782	3,891	-	24,673
Treatment	23,772	-	-	23,772	175	-	23,947
Transmission and distribution	311,288	16,313	(412)	327,189	29,428	(416)	356,201
General	12,288	1,400	(413)	13,275	1,494	(689)	14,080
Depreciable utility plant	401,447	46,218	(1,255)	446,410	36,416	(1,105)	481,721
Less accumulated depreciation:							
Source of supply	(11,161)	(779)	33	(11,907)	(1,205)	-	(13,112)
Pumping	(6,768)	(480)	-	(7,248)	(540)	-	(7,788)
Treatment	(3,159)	(770)	-	(3,929)	(772)	-	(4,701)
Transmission and distribution	(94,217)	(6,630)	112	(100,735)	(6,939)	467	(107,207)
General	(7,035)	(1,112)	414	(7,733)	(1,256)	630	(8,359)
Accumulated depreciation	(122,340)	(9,771)	559	(131,552)	(10,712)	1,097	(141,167)
Net depreciable utility plant	279,107	36,447	(696)	314,858	25,704	(8)	340,554
Land	7,682	3,127	-	10,809	-	-	10,809
Intangible	5,969	46	-	6,015	303	(11)	6,307
Construction in progress	31,878	41,930	(49,401)	24,407	27,435	(36,720)	15,122
Nondepreciable utility plant	45,529	45,103	(49,401)	41,231	27,738	(36,731)	32,238
Total utility plant	\$ 324,636	\$ 81,550	\$ (50,097)	\$ 356,089	\$ 53,442	\$ (36,739)	\$ 372,792





# Note 4: Long-Term Obligations

*The following is a summary of changes in long-term obligations during the fiscal years ended June 30, 2010 and 2009 (in thousands):*

	Balance, As of 6/30/08	Additions	Reductions	Balance, As of 6/30/09	Additions	Reductions	Balance, As of 6/30/10	Due Within One Year
Revenue bonds	\$ 150,360	\$ -	\$ (3,772)	\$ 146,588	\$ 102,041	\$ (25,354)	\$ 223,275	\$ 4,660
Pension obligation	5,682	-	(98)	5,584	-	(118)	5,466	139
Postemployment benefits payable	250	276	-	526	355	-	881	-
Water stock acquisition rights	964	-	(15)	949	-	-	949	150
Total long-term obligations	\$ 157,256	\$ 276	\$ (3,885)	\$ 153,647	\$ 102,396	\$ (25,472)	\$ 230,571	\$ 4,949

Long-term debt consists of the following (in thousands):

## Contracts Payable

	June 30, 2010	June 30, 2009
Water Stock Acquisitions: Payable on demand to various water companies	\$ 949	\$ 949
Total contracts payable	949	949

## Revenue Bonds Payable

<b>\$69,840 1991 Water Revenue Bonds:</b> \$25,900 serial capital appreciation bonds due in a final installment payment of \$3,235 on October 1, 2010 (partially advance refunded in 1998)	3,235	6,475
<b>\$30,965 1998 Water Refunding/Revenue Bonds:</b> All outstanding bonds were advance refunded on December 22, 2009 with the 2009 Water Refunding/Revenue Bonds	-	20,405
<b>\$20,000 2001 Water Revenue Bonds:</b> \$10,070 serial bonds due in annual installments from \$450 to \$510 through October 1, 2013, interest from 4.0 percent to 4.38 percent; \$4,345 term bonds due October 1, 2026 and \$5,585 term bonds due October 1, 2031 (partially advance refunded in 2005 and 2009 with final maturity in 2013)	1,920	4,030
<b>\$60,300 2008 Water Refunding/Revenue Series A Bonds:</b> \$60,300 variable rate bonds due in annual installments from \$450 to \$3,950 October 1, 2035. Interest rate is subject to weekly repricing (net interest rate, including swaps at June 30, 2010 was 3.2 percent)	59,450	59,875
<b>\$58,235 2008 Water Revenue Series B Bonds:</b> \$19,890 serial bonds due in annual installments from \$1,210 to \$2,585 from October 1, 2016 through October 1, 2028, interest from 4.0 percent to 5.0 percent; \$11,810 term bonds due October 1, 2033, interest at 5.0 percent; \$26,535 term bonds due October 1, 2038, interest at 5.0 percent	58,235	58,235
<b>\$31,895 2009 Water Refunding/Revenue Series A Bonds:</b> \$31,895 fixed rate bonds due in annual installments from \$500 to \$3,835 through October 1, 2020, interest from 0.65 percent to 5.0 percent	31,895	-
<b>\$67,790 2009 Water Revenue Series B Bonds:</b> \$67,790 fixed rate, federally taxable, Build America Bonds due in annual installments from \$2,475 to \$4,985 through October 1, 2039, interest from 3.33 percent to 4.13 percent	67,790	-
Total water revenue bonds payable	222,525	149,020
Total water revenue bonds and contracts payable	223,474	149,969
Unamortized deferred bond refunding costs	(4,127)	(3,651)
Unamortized capital appreciation	(110)	(427)
Unamortized bond premium	4,987	1,646
Total water revenue bonds and contracts payable, net of deferred bond refunding costs, capital appreciation, and bond premium	224,224	147,537
Less current portion	(4,810)	(4,565)
Total long-term water revenue bonds and contracts payable	\$ 219,414	\$ 142,972

## Note 4: Long-Term Obligations (continued)

Annual debt service requirements to maturity, as of June 30, 2010, are as follows (in thousands):

	2011	2012	2013	2014	2015	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040	Total
Principal	\$ 4,810	\$ 4,695	\$ 4,845	\$ 5,020	\$ 5,165	\$ 27,554	\$ 32,755	\$ 39,555	\$ 48,035	\$ 51,040	\$ 223,474
Interest	8,890	8,792	8,630	8,440	8,230	37,695	31,874	24,909	16,228	5,267	158,955
Total	\$ 13,700	\$ 13,487	\$ 13,475	\$ 13,460	\$ 13,395	\$ 65,249	\$ 64,629	\$ 64,464	\$ 64,263	\$ 56,307	\$ 382,429

The Water Utility's bond indentures require the Utility to maintain a minimum debt service coverage ratio, as defined by the bond covenants of 1.25. The Water Utility's debt service coverage ratio was 2.08 and 2.25 at June 30, 2010 and 2009, respectively. The debt (revenue bonds) is backed by the revenues of the Utility.

### PRIOR YEAR DEFEASANCE OF DEBT

In prior years, the Water Utility defeased certain Revenue Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Water Utility's financial statements. At fiscal year ended June 30, 2010, \$14,995 of bonds outstanding is considered defeased.

### 2009 WATER REFUNDING/REVENUE BONDS

On December 22, 2009, \$31,895, including premium, of Water Refunding/Revenue Series A Bonds were sold with an all-in true interest cost of 1.76% to advance refund \$20,090, all of the remaining 1998 Water Refunding/Revenue Bonds and \$1,675 of the outstanding 2001 Water Revenue Bonds. The remaining portion of \$13,199 will be used to finance the costs of certain improvements to the City's Water System as part of the Water Master, Water Supply, and Asset Management Plans incorporated in the 5 year Capital Improvement Program. This fixed rate bond issue, with an interest rate ranging from 0.65% to 5.0%, is due in annual installments from \$500 to \$3,835 through October 1, 2020. The refunding was undertaken to reduce total debt service payments over the next 9 years by \$2,885 and resulted in an economic gain of \$2,593.

On December 22, 2009, the Water Utility also issued \$67,790 of Water Revenue Series B Bonds (federally taxable, Build America Bonds) to finance certain Water System Improvements outlined in the 5 year Capital Improvement Program, including the construction of portions of recycled water system infrastructure and a 17 million gallon replacement reservoir. Annual principal payments ranging from \$2,475 to \$4,985 are due from October 1, 2010 through October 1, 2039, with associated interest rates of 3.33% to 4.13%.

### INTEREST RATE SWAPS ON REVENUE BONDS

The Water Utility has one cash flow hedging derivative instrument, which is a pay-fixed swap. The swap was determined to be hedge-effective under the synthetic instrument method. The change in fair value during the reporting period was reported as deferred debits.

A summary of the derivative activity for the year ended June 30, 2010 is as follows:

	Notional Amount	Fair Value as of 6/30/10	Change in Fair Value for Fiscal Year
2008 Water Refunding/Revenue Bonds Series A	\$ 60,300	\$ (7,130)	\$ (2,865)

**Objective:** As a means to lower borrowing costs, when compared against fixed-rate bonds at the time of issuance in May 2008, the City entered into interest rate swap agreements in connection with its \$60,300 2008 Water Refunding/Revenue Series A Bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate of 3.20%.

**Terms:** Under the swaps, the City pays the counterparty a fixed payment as noted above and receives a variable payment computed as 62.68% of the London Interbank Offering Rate ("LIBOR") one month index plus 12 basis points. The swaps have notional amounts equal to the principal amounts stated above. Starting in fiscal year 2009, the notional value of the swaps and the principal amounts of the associated debt decline by \$425 to \$3,950 until the debt is completely retired in fiscal year 2035.

## Note 4: Long-Term Obligations (continued)

The bonds and the related swap agreements for the 2008 Water Refunding/Revenue Series A Bonds mature on October 1, 2035. As of June 30, 2010, rates were as follows:

Interest rate swap:	Terms	Rates
Fixed payment to counterparty	Fixed	3.20000%
Variable payment from counterparty	62.68 LIBOR + 12bps	(0.73298%)
Net interest rate swap payments		2.46702%
Variable-rate bond coupon payments		0.71791%
Synthetic interest on bonds		3.18493%

**Fair value:** As of June 30, 2010, in connection with all swap agreements, the transactions had a total negative fair value of (\$7,130). Because the coupons on the City's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value decrease. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

**Credit risk:** As of June 30, 2010, the City was not exposed to credit risk because the swap had a negative fair value. The swap counterparty, J.P. Morgan Chase Bank was rated A+ by Standard & Poor's. To mitigate the potential for credit risk, the swap agreements require the fair value of the swap to be collateralized by the counterparty with U.S. Government securities if the counterparty's rating decreases to negotiated trigger points. Collateral would be posted with a third-party custodian. At June 30, 2010, there is no requirement for collateral posting for any of the outstanding swaps.

**Basis risk:** As noted above, the swaps expose the City to basis risk should the relationship between LIBOR and the variable rates converge, changing the synthetic rate on the bonds. If a change occurs that results in the rates moving to convergence, the expected cost savings may not be realized.

**Termination risk:** The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination event." That is, a swap may be terminated by the City if the counterparty's credit quality falls below "BBB-" as issued by Standards & Poor's. The City or the counterparty may terminate a swap if the other party fails to perform under the terms of the contract. If a swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination a swap has a negative fair value, the City would be liable to the counterparty for a payment equal to the swap's fair value.

*Swap payments and associated debt: As of June 30, 2010, the debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, are summarized as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.*

Variable-Rate Bonds						
Fiscal Year Ending June 30,	Principal		Interest		Interest Rate Swaps, Net	Total
2011	\$	450	\$	424	\$ 1,456	2,330
2012		800		418	1,436	2,654
2013		825		412	1,415	2,652
2014		850		406	1,395	2,651
2015		875		399	1,373	2,647
2016-2020		7,075		1,872	6,434	15,381
2021-2025		13,125		1,467	5,041	19,633
2026-2030		14,675		957	3,290	18,922
2031-2035		16,825		391	1,343	18,559
2036		3,950		-	-	3,950
Total	\$	59,450	\$	6,746	\$ 23,183	89,379

## Note 5: Restricted Equity

Pursuant to applicable bond indentures, a reserve for debt service has been established by restricting assets and reserving a portion of equity. Bond indentures for Riverside's water revenue bonds require reserves that equate to the maximum annual debt service required in future years plus three months interest and nine months principal due in the next fiscal year. The 2008 Refunding/Revenue Series A Bonds require 110% of the monthly accrued interest be included in the reserve. Additional reserves for the 2008 Revenue Series B Bonds are not required due to the purchase of surety bonds. The 2009 Refunding/Revenue Series A Bonds and 2009 Revenue Series B Bonds have no additional reserve requirements.

## Note 6: Litigation

The Water Utility is a defendant in various lawsuits arising in the normal course of business. Present lawsuits and other claims against the Water Utility are incidental to the ordinary course of operations of the Water Utility and are largely covered by the City's self-insurance program. In the opinion of management and the City Attorney, such claims and litigation will not have a materially adverse effect upon the financial position or results of operation of the Water Utility.

The Water Utility is also a plaintiff in a lawsuit against the manufacturers and distributors of methyl tertiary-butyl ether (MTBE) and its by-products, and of fuel containing these chemicals, arising out of the threat to the Water Utility wells of contamination with those chemicals from leaking underground storage tanks.

The defendants removed this lawsuit to federal court and then transferred the case to the Judicial Panel on Multidistrict Litigation, New York, where it was consolidated with all other pending MTBE water contamination litigation cases in the country. Although the City has settled with a number of the defendants, the case has not yet been resolved as to all defendants and there is no trial date for the remainder of the case.

## Note 7: Construction Commitments

As of June 30, 2010, the Water Utility had major commitments (encumbrances) of approximately \$15,709 with respect to unfinished capital projects which is expected to be funded by bonds.

## Note 8: Special Item

On December 6, 2005, the City Council adopted a resolution approving a fair market value transfer to the General Fund of approximately 190 acres out of a 227-acre parcel owned by the Utility's Water Fund. The transfer was facilitated by a loan from the Electric Fund to the General Fund. The transfer was intended to assist in the collaborative development of the property in conjunction with other entities, which have now been hampered by the current economic downturn that is particularly impacting the construction industry.

On June 16, 2009, the Water Utility reacquired the 190-acres from the City and rescinded the original transaction. The City's Water Utility desires to improve its groundwater resources which are critically important to avoid dependence on high-priced imported water. The Utility anticipates using the property for projects such as water production and groundwater replenishment facilities that will be critical to the City's use of the Riverside Groundwater Basin.

The Utility reacquired the land for a price of \$8,980. The original and current carrying value of the land in the Water Utility's capital assets remains at \$2,592. The balance between the purchase price and the carrying value of \$6,388 is recorded as a special item.

# Key Historical Operating Data: Water

## WATER SUPPLY (ACRE FEET)

	2009/10	2008/09	2007/08	2006/07	2005/06
Pumping	69,676	76,830	80,974	85,299	76,605
Purchases	0	0	1,643	2,092	2,670
Total:	69,676	76,830	82,617	87,391	79,275
Percentage pumped	100.00%	100.00%	98.0%	97.6%	96.6%
System peak day (gallons)	98,017,000	105,780,000	111,300,000	109,200,000	118,782,000

## WATER USE

	2009/10	2008/09	2007/08	2006/07	2005/06
Number of meters as of year end					
Residential	58,372	58,152	57,694	57,666	57,308
Commercial/Industrial	5,451	5,519	5,446	5,279	5,204
Other	408	391	354	486	473
Total:	64,231	64,062	63,494	63,431	62,985
*CCF sales					
Residential	16,321,425	17,898,798	18,483,522	19,848,653	17,702,717
Commercial/Industrial	9,344,085	10,342,284	10,510,953	10,817,783	9,822,196
Other	871,396	983,553	970,239	1,243,927	1,157,130
Subtotal:	26,536,906	29,224,635	29,964,714	31,910,363	28,682,043
Wholesale	150,365	496,601	618,552	199,845	182,987
Total:	26,687,271	29,721,236	30,583,266	32,110,208	28,865,030

\*(CCF equals 100 cubic feet)

## WATER FACTS

	2009/10	2008/09	2007/08	2006/07	2005/06
Average annual CCF per residential customer	280	308	320	345	312
Average price (\$/CCF) per residential customer	\$2.05	\$1.81	\$1.63	\$1.43	\$1.26
Debt service coverage ratio (DSC) <sup>1</sup>	2.08	2.25	3.88	3.38	5.11
Employees <sup>2</sup>	178	167	167	165	137

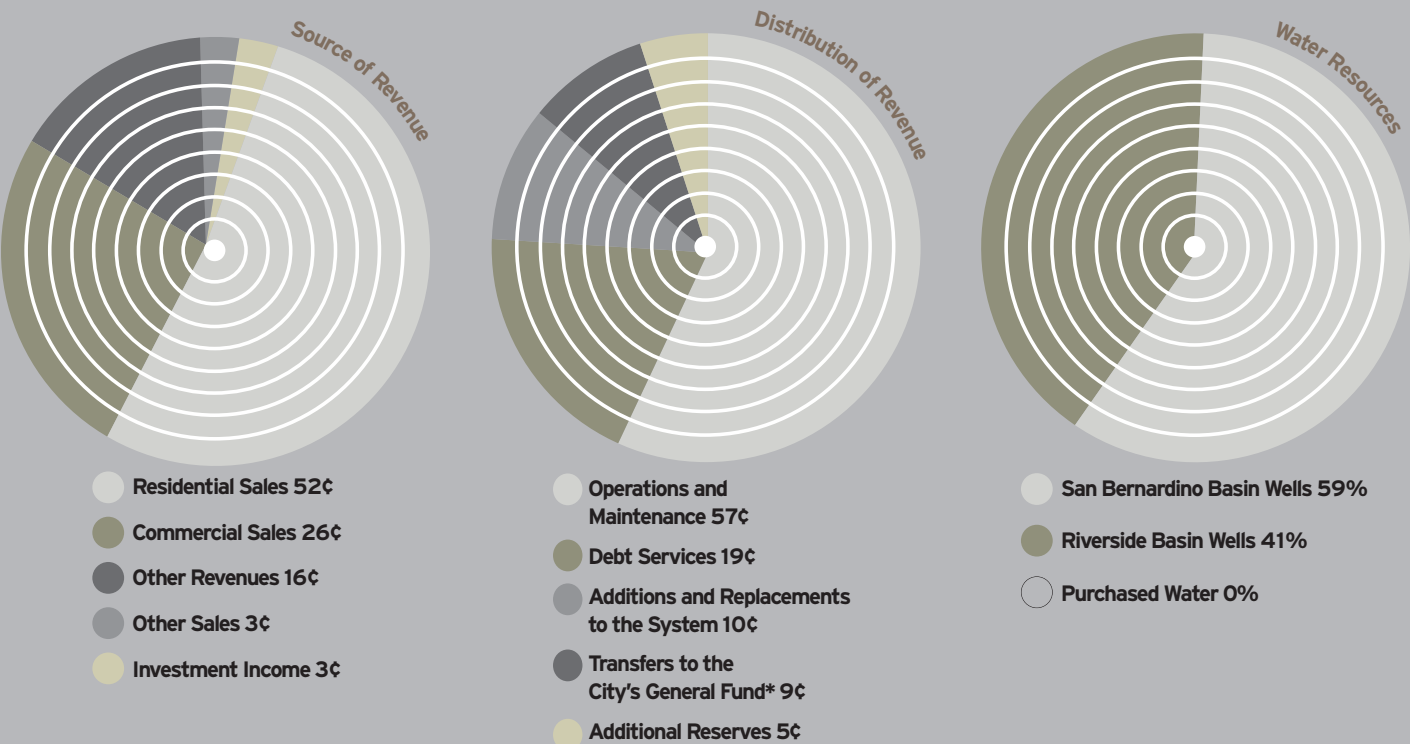
<sup>1</sup>FY 09/10 interest expense used to calculate DSC is net of federal subsidy on Build America Bonds

<sup>2</sup>Approved positions



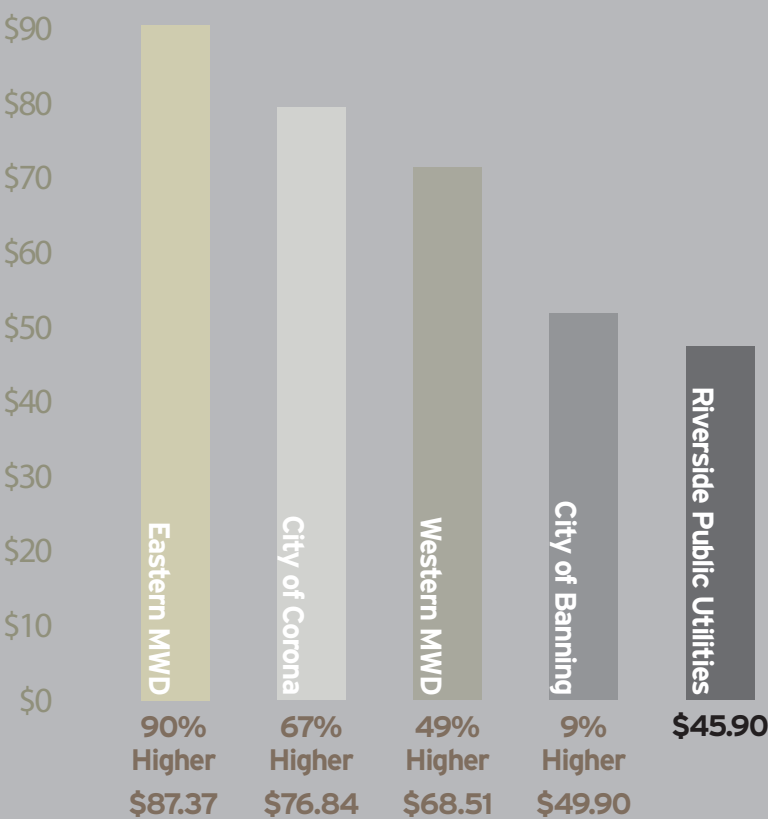
# Key Historical Operating Data: Water

2009/2010 WATER REVENUE AND RESOURCES



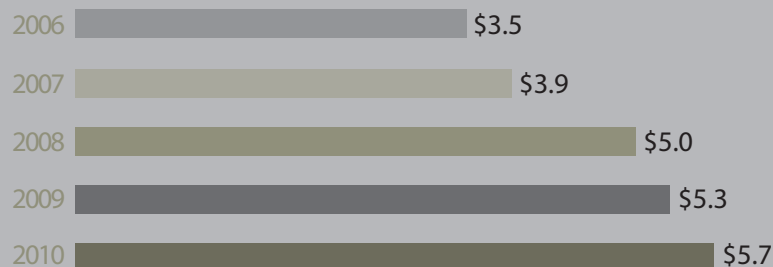
\* Based on transfer of 11.5% of fiscal year 2008/2009 operating revenues (excludes wholesale sales and Conservation and Reclamation revenue) .

RESIDENTIAL WATER RATE COMPARISON – 26 CCF PER MONTH (AS OF JUNE 30, 2010)



# Key Historical Operating Data: Water

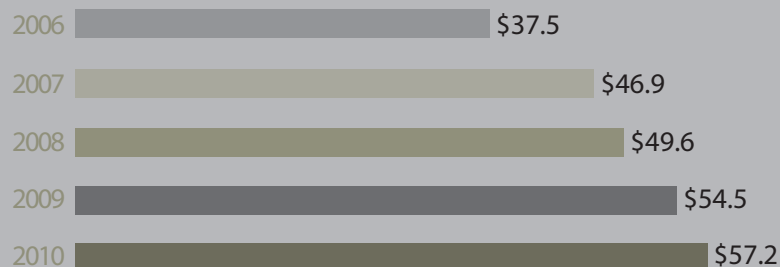
## GENERAL FUND TRANSFER (IN MILLIONS)



## NUMBER OF METERS AT YEAR END



## TOTAL OPERATING REVENUE (IN MILLIONS)



## PRODUCTION (IN ACRE FEET)



## PEAK DAY DEMAND (IN MILLION GALLONS)



## WATER FACTS AND SYSTEM DATA

Established	1913
Service Area Population	304,051
Service Area Size (square miles)	74.7
System Data:	
Smallest pipeline	2.0"
Largest pipeline	72.0"
Miles of pipeline	1,002
Number of domestic wells	52
Number of active reservoirs	15
Total reservoir capacity (gallons)	79,990,000
Number of treatment plants	7
Number of treatment vessels	99
Miles of canal	14
Number of fire hydrants	7,593
Daily average production (gallons)	62,314,113
2009-2010 Peak day (gallons)	98,017,000
07/20/09, 103 degrees	
Historical peak (gallons)	118,782,000
08/09/05, 99 degrees	

## Bond Ratings

Fitch Ratings	AA+
Moody's	Aa2
Standard & Poor's	AA+

